

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)	
)	
BellSouth and Bell Atlantic)	
Petition for Rulemaking to Amend)	RM-9341
Part 32 of the Commission's)	
Rules to Adopt the Accounting)	
For Software Required By SOP 98-1)	

COMMENTS OF AMERITECH

I. INTRODUCTION

Ameritech¹ respectfully submits its comments in response to the Public Notice released on August 13, 1998 pertaining to the petition for rulemaking filed by Bell Atlantic and BellSouth to amend Part 32 of the Commission's rules to adopt Statement of Position 98-1 ("SOP 98-1"), Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.² Ameritech supports the timely issuance of an order changing Part 32 Rules to allow all carriers to implement SOP 98-1 on January 1, 1999, and the waiver of the need for a revenue requirement study for price cap regulated carriers adopting the new accounting standard.

Effective for financial statements for fiscal years beginning after December 15, 1998, the provisions of SOP 98-1 must be applied to internal-use software costs. As such, local exchange carriers (LECs) will be required to capitalize these costs in their financial accounting records. Ameritech urges the Commission to authorize this change in accounting in order to align Part 32 accounting rules with Generally Accepted Accounting Principles (GAAP). Adoption of the

¹ Ameritech means: Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc.

² See Public Notice, BellSouth and Bell Atlantic File a Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Adopt the Accounting for Software Required by Statement of Position 98-1 (RM-9341), DA 98-1625, released August 13, 1998, (the "Public Notice"). See also, Petition of BellSouth and Bell Atlantic, In the Matter of Petition for Rulemaking to Amend Part 32 of the Commission's Rules, Uniform System of Accounts for

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provisions of SOP 98-1 will eliminate the unnecessary burden and costs resulting from maintaining separate regulatory accounting processes, procedures, and records while still providing industry uniformity in the accounting for such costs.

Following are Ameritech's comments in response to the Public Notice with respect to intangible accounting treatment, amortization periods, and price cap implications.

II. SOFTWARE SHOULD BE AFFORDED INTANGIBLE TREATMENT

Ameritech agrees with the Joint Petition that software should be afforded intangible accounting treatment.³ Software represents the entire set of programs, processes and documentation associated with a computer system whose value is primarily associated with the tasks/functions the programming performs. Other than the medium on which the software is stored, software lacks the physical characteristics that substantiate the existence of a tangible asset.

III. THE COMMISSION SHOULD NOT DEFINE ANY SPECIFIC AMORTIZATION PERIOD

There is no need for the Commission to define any specific amortization period. SOP 98-1 provides guidance for determining the period of time over which capitalized software costs should be amortized. Specifically, SOP 98-1 states at paragraph 37:

In determining and periodically reassessing the estimated useful life over which the costs incurred for internal-use computer software will be amortized, entities should consider the effects of obsolescence, technology, competition, and other economic factors. Entities should consider rapid changes that may be occurring in the development of software products, software operating systems, or computer hardware and whether management intends to replace any technologically inferior software or hardware. Given the history of rapid changes in technology, software often has had a relatively short useful life.

Class A and Class B Telephone Companies to Adopt the Accounting for Software Required By Statement of Position 98-1, filed August 3, 1998, (the "Joint Petition").

³ See Joint Petition at 4-5.

This guidance is consistent with that currently provided by the Commission in Part 32 at Section 32.2000(h), Amortization Accounting, which states "[t]he cost of each type of asset shall be amortized on the basis of the estimated life of that asset. A reasonable estimate of the useful life may be based on the upper or lower limits even though a fixed existence is not determinable." Further, "[i]n the event any estimated useful life becomes no longer applicable, a revised useful life shall be determined."

It is clear that the Commission's existing rules regarding establishing amortization periods for amortizable assets already aligns with the newly prescribed GAAP requirement. Therefore, there is no need for the Commission to define any specific amortization periods.

IV. NO EXOGENOUS PRICE CAP ADJUSTMENT IS NECESSARY

The accounting change resulting from the implementation of SOP 98-1 does not necessitate an exogenous price cap adjustment. Accounting changes including GAAP may result in exogenous price cap treatment pursuant to Section 61.45(d)(1)(ii), Adjustments to the PCI for Local Exchange Carriers, provided there is no double counting with the GNP-PI. Exogenous cost treatment is limited to those instances that impact a carrier's discounted cash flow.⁴ Consequently, the Commission need not address whether there is a disproportionate impact to local exchange carriers (which in itself would result in a protracted and unnecessary proceeding), since the adoption and implementation of SOP 98-1 does not impact a carrier's discounted cash flow as the requirement to capitalize software simply changes the timing of the recovery and, as such, is not considered to have an economic impact on a carrier. In other words, the funds expended on software are incurred regardless of such costs being treated as a current period expense or as a capitalized and amortized intangible asset.

⁴ See In the Matter of Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, First Report and Order, released April 7, 1995, at paragraph 295.

V. CONCLUSION

For the foregoing reasons, Ameritech supports the timely amendment of the Commission's Part 32 rules to provide for the implementation of SOP 98-1 by all carriers on January 1, 1999. In addition, carriers should be allowed to treat software assets as intangibles, determine amortization periods, and avoid exogenous price cap adjustments. Finally, a waiver of the revenue requirement study should be granted.

Respectfully submitted

A handwritten signature in black ink that reads "Leander R. Valent" followed by a stylized flourish or initials.

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